

**BEFORE THE
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001**

**MAIL PROCESSING NETWORK
RATIONALIZATION SERVICE CHANGES, 2011**

Docket No. N2012-1

**SURREBUTTAL TESTIMONY OF
MARC McCRERY
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE
(USPS-SRT-3)**

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AUTOBIOGRAPHICAL SKETCH

My name is Marc McCrery. I am currently the Manager, Specialty Shipping, Domestic Products. I am the Product Manager for Express Mail, Priority Mail documents, Parcel Select lightweight parcels, First-Class Mail parcels, and product samples. I am responsible for developing and implementing marketing plans that include the product, price, place and promotion strategies for these products. I have held this position since 2010.

I joined the Postal Service in 1990 as an Industrial Engineer Trainee. Upon leaving the training program in late 1992, I moved to USPS Headquarters as a staff member for the Facility Activation group. I held staff positions in Bulk Mail Center Operations, Processing and Distribution Center Operations, and Operational Requirements and Integration. In 2003, I was promoted to Manager, Business Mailer Support, where I was responsible for the management of major mailer postage payment systems and a mail preparation total quality management program for presort bureaus and letter shops. In 2004, I was promoted to Manager, Operational Requirements and Integration. My duties in that position were to serve as the focal point for operations planning related to operational impacts of rate and mail preparation issues. In 2008-09, I attended the Sloan School of Management at the Massachusetts Institute of Technology as a Sloan Fellow. In 2009, I was Acting Senior Vice President of Strategy and Transition.

1 I have a Bachelor of Science Degree in Industrial Engineering from the University
2 of Wisconsin – Madison. I received a Masters in Business Administration from the
3 Sloan School of Business in 2009.

4 I testified previously before the Postal Regulatory Commission in Docket Nos.
5 R2006-1 and R2005-1.

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2 **PURPOSE OF TESTIMONY**

3 This testimony responds to testimony presented by American Postal Workers
4 Union (APWU) witness Marc Schiller (APWU-RT-2) regarding growth in business-to-
5 consumer (B2C) fulfillment of internet purchases, awareness by the Postal Service of
6 this opportunity, and its preparedness to participate in what many expect will constitute
7 a growth opportunity for the Postal Service. Witness Schiller describes the forthcoming
8 business opportunity while criticizing the Postal Service's general readiness to respond.
9 He also describes the specific impacts he expects the proposed Mail Processing
10 Network Rationalization Service Changes (MPNR) to have. This testimony describes
11 the market opportunity presented, how the Postal Service is preparing to capitalize on it,
12 and analytical flaws in witness Schiller's approach that prevent him from understanding
13 how MPNR improves Postal Service readiness for this revenue and growth opportunity.

14 **EXECUTIVE SUMMARY**

15 The most important attribute of mail to customers is reliable, consistent on-time
16 delivery. Any adjustment in the proposed service standards for a particular
17 origin/destination pair will not change a customer's need for reliable, consistent on-time
18 delivery nor significantly change the Postal Service's ability to satisfy the needs of
19 senders of Priority Mail or other packages. Indeed, we expect MPNR to improve
20 consistency and on-time performance of delivery. The near future presents a growth
21 opportunity for Priority Mail and shipping services because the Postal Service has, is
22 and will be meeting customer expectations and needs. The opportunity for the Postal
23 Service to grow its shipping services, particularly in the business-to-customer (B2C)

1 market segment, will not be at risk if MPNR is implemented because the service
2 standards for Priority Mail and other shipping services will remain essentially as they are
3 today. MPNR will not cause a degradation of the service standards or service
4 performance for Priority Mail or other shipping services. Overnight delivery of Priority
5 Mail will continue as it does today, even though the product's appeal is based largely on
6 the second and third days of the product's one-to-three service standard day range. As
7 a result, MPNR will not affect the growth opportunity for Priority Mail.

8 Customers will adjust to the elimination of most overnight First-Class Mail service
9 because it is not a critical attribute to them. Instead, reliability, ease of
10 use/convenience, and affordability are what they deem critical attributes. If customers
11 need day-specific delivery, they have generally indicated that they will exercise the
12 option of sending First-Class Mail a day earlier or using a more expedited postal
13 service.

14 The longstanding Postal Service strategy of providing the last mile of package
15 delivery to capitalize on the strength of its delivery network will continue, unimpaired by
16 MPNR.

17 On the other hand, if MPNR is not implemented, Postal Service costs will
18 continue to increase due in large part to excess capacity. Such increases could
19 translate into higher package service prices that could put the affordability of Priority
20 Mail and our other shipping services at risk. Implementation of MPNR will help to
21 support the Postal Service's ability to continue offering shipping services at affordable
22 prices.

1 MPNR would eliminate the expectation of overnight service for significant
2 portions of First-Class Mail and enlarge the two-day range to include origin/destination
3 pairs that are currently overnight, and enlarge the three-day delivery range. These
4 revisions will enable the Postal Service to significantly consolidate its processing and
5 transportation networks, thereby creating an infrastructure that better matches current
6 and projected mail volumes while achieving significant cost savings. MPNR would not
7 materially affect the service standards or performance of Priority Mail or our other
8 shipping services. Rather, MPNR supports continued growth of Priority Mail and its
9 availability at affordable prices.

10 **I. CONSISTENT, RELIABLE ON-TIME DELIVERY IS WHAT CUSTOMERS**
11 **MOST DEMAND FOR SHIPPING SERVICES.**

12 The needs of business and residential shipping services customers vary based
13 on how they use the mail. Factors such as the nature or content of items shipped
14 (documents or merchandise) and the purpose of each shipment determine customer
15 need. Witness Schiller essentially focuses upon a single factor – speed of service.
16 APWU-RT-2 at 35. Based on interviews with 17 shippers and his experience with
17 ground services offered by Postal Service competitors, he contends that network
18 rationalization and the associated service standard changes will adversely affect the
19 Postal Service's shipping services solely because some mail that is currently delivered
20 overnight will take an extra day to reach tis destination. *Id.* at 33-34. However, witness
21 Schiller's analysis overlooks the fact that what is most important to customers is
22 reliable, consistent on-time delivery.¹ Adjustments in the proposed service standards

¹ The surrebuttal testimony of witness Elmore-Yalch (USPS-SRT-4) covers the research underlying Postal Service understanding of what its customer's value.

1 for a particular origin/destination pair will not affect the Postal Service's ability to provide
2 reliable, consistent on-time delivery. Accordingly, the Postal Service aims to improve its
3 performance in ways research demonstrates that customers value most.

4 The Postal Service also segments the package market differently than does
5 witness Schiller. The Postal Service first segments the market by customer choice of
6 speed of service – overnight, two-to-three day and ground packages. The Postal
7 Service segments the package market in this manner because it conforms to what
8 customers have told us that they need: an array of products that includes (1) overnight
9 service, (2) delivery within two-to-three days, and (3) ground delivery. A choice is then
10 made based on when the sender and/or the recipient need delivery. If there is an
11 absolute need for something to be delivered overnight, Express Mail would be their
12 choice; if 2-to-3 day delivery is required, Priority Mail is the likely selection; and, finally, if
13 2-to-8 day delivery is sufficient within the contiguous 48 states, the customer would
14 likely use one of our shipping services. Witness Schiller instead defines the first
15 segment as overnight delivery, one that encompasses both Express Mail and Priority
16 Mail. Based on customer expectations and needs and our operational capabilities, this
17 definition reflects a business model the Postal Service does not choose to implement.

18 Customers indicated in the market research presented in this proceeding that if
19 they needed delivery by a specific day, and they were using First-Class Mail, they would
20 simply mail sooner. This strategy allows them to use the service they know can meet
21 their need for reliable delivery at an affordable price. They are willing to accept the
22 proposed changes in First-Class Mail service standards as a trade-off to help ensure
23 the continued financial viability of the Postal Service. USPS-T-12, at 5-6 and 9. These

1 findings confirm what customers have told us about how they make real world shipping
2 decisions every day by selecting a carrier and level of service, balancing, for example,
3 their need for consistency of service against price.

4 Customers have told the Postal Service for decades that the most important
5 attribute to them is reliable, consistent on-time delivery. They have said that this
6 attribute constitutes the fundamental price of doing business with them so long as the
7 price is affordable.

8 They have told us that reliable, consistent on-time delivery means “tell me how
9 long it should take to deliver my package and then do it.” They are basically indifferent
10 to the mode of transportation (air or ground) used to move their packages. Generally, if
11 a package arrives sooner than promised, they are satisfied, whereas they are very
12 dissatisfied if a package arrives late.

13 The promise of delivery times is expressed in service standards for respective
14 shipping services and marketed to customers in advertising and promotional materials.
15 Customers see the service standards for most shipping services at Post Offices, online
16 at usps.com, and in promotional or advertising material. Priority Mail, for example, has
17 been promoted as a two to three day service since the 1980s and has been delivering
18 consistently on that promise.

19 Customers have told us this in the normal course of doing business - to clerks at
20 retail offices, to sales people, at conferences such as the National Postal Forum and in
21 conversations with product managers. I have had numerous such direct conversations
22 with customers. They have also told us this in market research, conducted on behalf of
23 the Postal Service, for decades. For example, in quantitative market research

1 conducted by The Colography Group, Inc. for the Postal Service in 2010, business
2 customers of two to three day services were asked to rank the importance of specific
3 attributes when selecting a carrier. The number one attribute for users and non-users of
4 Priority Mail is reliable, on-time delivery. Speed of service is ranked sixth for users of
5 Priority Mail and fourth for users of other services. Based on this research and input
6 from customers, the Postal Service will continue to offer overnight, two-to-three day
7 service and ground services so that customers' expectations and needs continue to be
8 met. MPNR helps us achieve this goal.

9 The Postal Service has long provided customers with consistent on-time delivery
10 of Priority Mail and other shipping services, a pattern that MPNR will not change. The
11 Postal Service will continue offering the same service standards for Priority Mail if it
12 implements MPNR.

13 **II. POSTAL SERVICE SHIPPING SERVICES REMAIN COMPETITIVE**

14 Continuing the existing strategic focus upon shipping services will improve the
15 Postal Service's competitive stance in the package market. I concur with witness
16 Schiller that the near future presents a growth opportunity for Priority Mail and shipping
17 services.² In my position, I see the Postal Service improving its competitive position
18 because it will continue to meet customer expectations and needs.

19 Witness Schiller asserts that the Postal Service could become a major player in
20 the package market. APWU-RT-2 at 24-37. In actuality, the Postal Service is and

² APWU-RT-2 at 24-37.

1
2 will continue to be a major player in the package market.³ MPNR will improve the
3 Postal Service positioning to grow its shipping services by meeting customer needs by
4 positioning it to provide more consistent on-time delivery.

5 The 70-pounds-and-under package market generates over \$58 billion in revenue
6 for all carriers.⁴ It has been estimated that collectively, over 6.5 billion domestic
7 shipments⁵ were delivered in CY 2011.⁶ While witness Schiller characterizes that the
8 Postal Service market share in the overall package market as 11-12 percent (APWU-
9 RT-2 at 25), I believe this market share is defined by revenue. The Postal Service
10 measures market share by volume to ensure that it is able to compare apples to apples
11 for one year to the next without allowing price increases to distort perceived change in
12 market share. Our market share by shipments weighing 70 pounds and under for the
13 total domestic package market is about double – 21 percent – what he states. The
14 estimated CY 2011 market shares for shipments weighing 70 pounds or under for the
15 Postal Service, UPS and FedEx are shown in Chart 1⁷ below:

³ Both USPS-LR-N2012-1/NP-24 and Attachment A to my testimony, Presentation of Mark Schoeman, President, The Colography Group, Inc., *Brief Overview Of The Package Shipping Market, Postal Vision 2020 Conference (June 12, 2012)* show that the Postal Service is a major player in the package market.

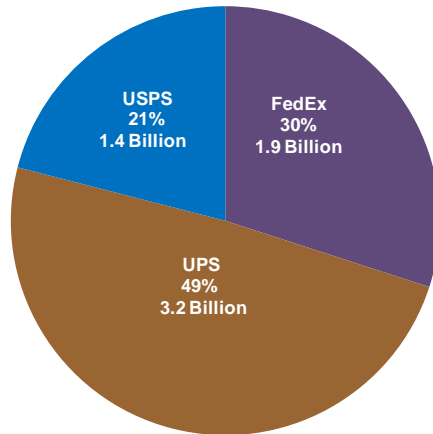
⁴ USPS-LR-N2012-1/NP-24.

⁵ Shipments are one or more items moving from one consignor to one consignee.

⁶ Note that USPS-LR-N2012-1/NP-24 contains similar information for the first three quarters of CY 2011.

⁷ Presentation of Mark Schoeman, President, The Colography Group, Inc., *Brief Overview Of The Package Shipping Market, Postal Vision 2020 Conference (June 12, 2012)*.

Chart 1⁸
Market Share of Shipments CY 2011



With a market share for shipments of 21 percent of the total package market, the Postal Service is today a major competitor in the package market.

The Docket No. R2006-1 testimony of Postal Service witness Thomas Scherer (USPS-T-33 at 7-8) that Priority Mail's volume market share of the two-to-three day market was 53 percent in 2005. Priority Mail's market share of that market since 2005 has continued steadily over 50 percent—by definition the largest share. The Postal Service continues to be a major competitor in the two-to-three day market because it remains positioned to provide the services that customers want at affordable prices. This is also shown in the June 2012 American Customer Satisfaction Index TM (ACIS)⁹ ratings for customer satisfaction in the transportation industry that show Express and

⁸ Id.

⁹ http://www.theacsi.org/index.php?option=com_content&view=article&id=63&Itemid=101.

Priority Mail have improved with an 81 rating, tied with UPS and one point lower than FedEx. Priority Mail and the Postal Service's other shipping services will continue to be very competitive and the Postal Service will continue to be a major player in the package market when MPNR is implemented.

Witness Schiller asserts (*id.* at 32) that "the USPS product portfolio is poorly positioned. The array of USPS products ... is neither customer friendly nor inclusive of features parcel shippers demand." As illustrated by Table 1 and Chart 2 (below), the growth rates of Postal Service products shows otherwise. For example, in 2011, the growth of Priority Mail, Parcel Select and Parcel Return Service (PRS) exceeded the estimated growth of FedEx and UPS air and ground products, as well as the GDP. Such growth occurred because our shipping services are competitive and positioned to meet customer needs.

Table 1¹⁰
Growth Rates of Shipments Over Prior Year

	CY-2007	CY-2008	CY-2009	CY-2010	CY-2011	5 Year Average
Express Mail	-4.1%	-9.3%	-5.7%	-8.2%	-4.1%	-6.3%
Priority Mail	10.9%	-5.2%	-5.7%	-1.4%	3.0%	0.3%
Parcel Select	1.0%	-1.8%	1.4%	21.9%	28.8%	10.2%
PRS	-6.6%	34.4%	75.4%	44.8%	29.0%	35.4%
First Class Package Service	--	--	--	--	Began Oct 2011	--
FedEx/UPS						
Air	-1.0%	-5.1%	0.7%	0.8%	0.2%	-0.9%
Ground	2.0%	-0.3%	-3.0%	3.2%	2.3%	0.8%
GDP	1.9%	-0.3%	-3.5%	3.0%	1.7%	

¹⁰ *Id.*

1 Contrary to witness Schiller's assertions, the Postal Service has been and will
2 remain positioned to meet customer needs, including shippers in the B2C market.¹¹
3 The Postal Service is customer-friendly and its products reflect customer-driven
4 features. For example, Click-N-Ship, flat-rate packaging for Express Mail and Priority
5 Mail, Hold-For-Pickup, and Parcel Return Service make it easy for customers to use the
6 Postal Service. Our extensive delivery network to every household is available to
7 shippers of B2C products without any residential or rural delivery surcharges.⁷ This
8 positions Priority Mail and our other shipping services very competitively.

¹¹ See *Tip the Scales in Your Favor with USPS Shipping Solutions*, presented by Karen Key, manager, Shipping Products and me at the 2012 National Postal Forum.
<http://npf.org/pdfs/presentations/2012/TiptheScalesinYourFavorwithUSPSShippingSolutions.pdf>

Chart 2¹²

Carrier Product Growth Trends In The Competitive Shipping Market

Percent Change Shipments Over Prior

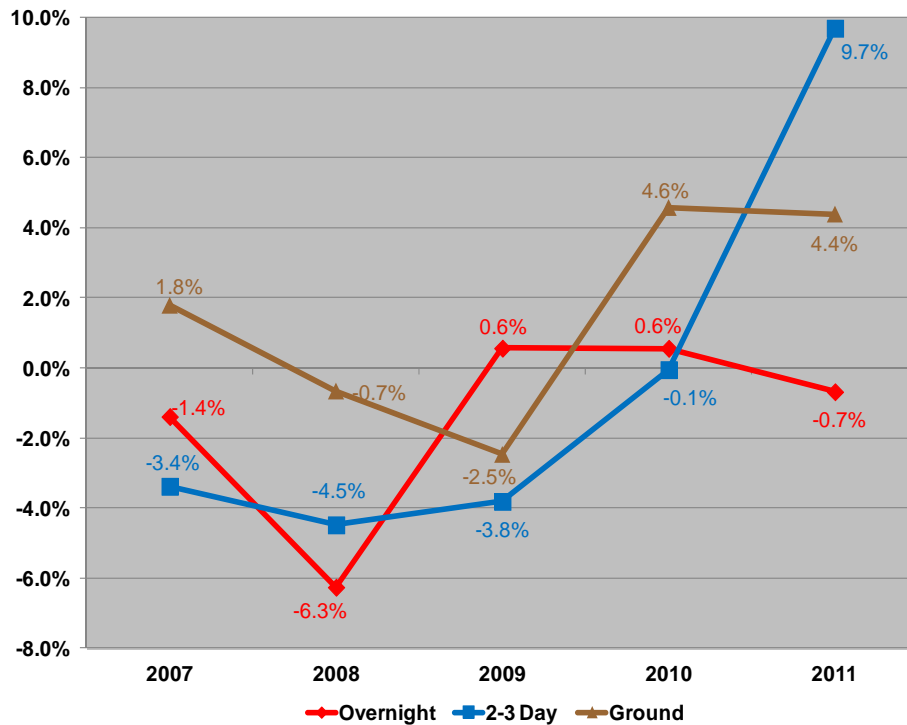


Table 1 and Chart 2, above, taken together show the correlation between Gross Domestic Product and package growth rates. Generally, the two to three day and ground markets have fluctuated with GDP. Hence growth opportunity exists for the Postal Service in the two to three day and ground parcel markets.

Witness Schiller asserts that far more substantial growth than the Postal Service's forecast of three percent of Combined Annual Growth Rate through 2020 can be achieved. He believes that annual growth rates of eight to nine percent are

¹² Id.

1 achievable. *Id.* at 26. Such significant growth is not realistic; while the Postal Service's
2 2010 forecast of three percent growth is realistic. He also says that three percent
3 growth constitutes a loss of market share. As is shown above in Table 1 and also
4 above in Chart 2, the Postal Service's package growth rates move with the growth or
5 decline in GDP. As the Colography Group concluded at the Postal Vision 2020
6 conference, domestic economic growth will continue to be tepid. For the remainder of
7 2012 and early 2013, Colography projects no significant upward trend in package
8 growth rates. Their view is that the growth of the overall package market will be driven
9 by the manufacturing, wholesale, services and retail industries that mostly move B2B,
10 which will continue to grow in relation to the GDP. The Postal Service does not foresee
11 any event that will change this relationship. I am not aware of any forecasts of GDP
12 growth in the 8-9 percent range through 2020. While the growth of ecommerce sales
13 can be expected to exceed the rise in GDP over the next five years, overall shipping
14 volumes should not be expected to grow significantly above GDP growth because B2C
15 ecommerce does not represent a large enough portion of the package market to alter its
16 growth trend.

17 Witness Schiller testified that an overnight capability for Priority Mail up to 250
18 miles would be the single most important factor in contributing to its future growth. Tr.
19 11/3906-07. The Postal Service currently delivers Priority Mail overnight for a
20 significant portion of mail destined within the local zone and zones 1 and 2. That is why
21 about 15 percent of Priority Mail is and will continue to be delivered overnight. Many
22 customers, primarily businesses, know that they will receive such service and take
23 advantage of it, notwithstanding the fact that Priority Mail is perceived primarily as a

1 two-to-three day product. MPNR will not change this. Customers of all types and sizes
2 tell us that Priority Mail provides the service they expect and need. But going beyond
3 the status quo and promising delivery of all Priority Mail destined within the local zone
4 and zones 1-3 overnight would require a major change in the operating plan for Priority
5 Mail. No such plan is contemplated because of the substantial additional costs and,
6 hence, prices, it would incur in a market that cannot tolerate significant price increases.

7 **III. PRIORITY MAIL SERVICE WILL NOT BE ADVERSELY AFFECTED BY MPNR**

8 Witness Schiller asserts that the substantial opportunity for the Postal Service to
9 grow its shipping services, particularly in the B2C market segment, would be at risk if
10 the proposed MPNR is implemented because the service standards for Priority Mail and
11 other shipping services will be degraded. APWU-RT-2, at 19-25. This conclusion is
12 based on a flawed analysis of the effect of MPNR, which will not cause a degradation of
13 the service standards or service performance for Priority Mail or other shipping services.
14 As such, MPNR does not present the barrier to growth for Priority Mail that witness
15 Schiller supposes.

16 Witness Schiller's analysis is flawed by its essential assumption that an
17 operations network consists exclusively of processing facilities. APWU-RT-2 at 19-22,
18 38-39. Based on his analysis, witness Schiller concludes that the service standards for
19 Priority Mail and other shipping services can only be degraded. What he fails to
20 conceptualize is that an operations network consists of much more than processing and
21 distribution facilities. It consists of acceptance facilities, transportation to and from
22 processing and distribution facilities, processing at originating facilities, transportation to
23 and from destinating facilities, processing at destination facilities, and transportation

1 both to the delivery unit and delivery. However, MPNR would only affect the operations
2 network for Priority Mail by reducing the number of processing and distribution facilities
3 and may result in increases in the percentage of Priority Mail processed in auxiliary
4 facilities or transported by air; both of these constitute opportunities for improved
5 consistency of Priority Mail service, which will be a post-MPNR focus.

6 MPNR will not materially change the service standards of Priority Mail, whose
7 overnight service areas will continue to comprise about 15 percent of overall product
8 volume. Two and three day service areas will also remain about the same as they are
9 now. Service will not be degraded because, as is done today, if it is necessary to make
10 the service standard, Priority Mail will be transported by air or other operational actions
11 will be taken. Furthermore, if additional volume of Priority Mail is tendered to the Postal
12 Service because of product growth, the operating network will be adjusted to ensure
13 timely delivery, just as it is today. This could include processing Priority Mail at
14 additional consolidation points in addition to Processing and Distribution
15 Centers/Facilities.

16 The Postal Service has set targets for Priority Mail volume/service proportions
17 service that will guide post-MPNR management direction. These targets are shown in
18 Table 2.

Table 2

Priority Mail Service Performance Percentage of Volume Delivered

	1-Day	2-Day	3-Day
PQIII, FY 2012 ¹³	15.3%	75.9%	8.8%
MPNR target ¹⁴	~15%	~76%	~9%

These targets are based on the operating plan for Priority Mail both before and after MPNR implementation. As Table 2 shows, the performance targets will not materially change current service goals expressed as a percentage of Priority Mail volume. Service performance against the standards should not change materially.

Certain incorrect assumptions made by witness Schiller likely contributes to errors in his evaluation of the effect that MPNR will have on the Postal Service's shipping service volumes. His Table 2 and simulation model incorrectly assume an 8:00 a.m. arrival deadline for Priority Mail at destination. The Postal Service's operating plan for Priority Mail assumes a 5:00 p.m. CET for the acceptance or entry of the mail. Based on that time, the processing, transportation and delivery of Priority Mail is planned so that it is delivered within the service performance standard for the origin/destination 3-digit ZIP Code pair. The operating plan seeks to maximize the use of less expensive surface transportation. Where timely service cannot otherwise be made using surface transportation, air transportation may be used. MPNR will entail

¹³ PQIII, FY 2012, ODIS.

¹⁴ The target percentage is approximately the volume percentage shown in ODIS. While specific 3-Digit ZIP-Code pairs may change up or down, the target percentage of volume could be a little higher or lower.

1 fewer processing and distribution plants and, in certain instances, it will take more time
2 to transport Priority Mail to and from plants. As such, Priority Mail could require more
3 air transportation. The decision whether to fly Priority Mail in such circumstances will be
4 made then as it is now based on the business case supporting the use of more
5 expensive air transportation.

6 Currently, most Priority Mail destinating in zones 1 to 3 within the contiguous
7 United States is transported by surface. This will remain true once MPNR is
8 implemented. Our expectation is that overnight service within the local zone and zones
9 1 to 2 will be maintained because surface transportation readily supports that service.
10 Priority Mail is transported via surface within the local zone and zones 1-2 within the
11 contiguous United States up to about 150 radial miles from the origin to support
12 overnight service. Surface transit times for such overnight mail are up to 3 1/4 hours.
13 Such transit times will continue to support the target overnight delivery reach of Priority
14 Mail in an MPNR environment.

15 Priority Mail moving to zones 4 and 5 is currently transported by a mix of air and
16 surface transportation. When MPNR is implemented, a higher percentage of Priority
17 Mail will be transported by air so that the current service is maintained.

18 Priority Mail that to zones 6-8 is currently transported almost entirely by air. This
19 will not change under MPNR. The current two and three day service areas for these
20 zones will be retained.

21 Witness Schiller's simulation model shows that eight percent of Priority Mail
22 would be delivered one day later and nearly eight percent would miss its service

1 standard. APWU-RT-2 at 21. As explained above, since Priority Mail's delivery will not
2 change materially, the change in service shown in his simulation model will not occur.

3 Parcel Select and other drop ship parcel programs will not be impacted by
4 MPNR. The service standards for Parcel Select drop shipped to destination delivery
5 unit, P&DCs and NDCs will remain the same when MPNR is implemented.

6 **IV. CUSTOMERS WILL CONTINUE RECEIVING CONSISTENT FIRST-CLASS** 7 **MAIL SERVICE UNDER MPNR**

8 Witness Schiller asserts that MPNR would eliminate overnight capability for much
9 of First-Class Mail, thereby "leaving a network incapable of addressing an increasing
10 important portion of the market." APWU-RT-2 at 33-34. He bases this conclusion on
11 research involving 17 interviews of package shippers. He also states that under the
12 new plan, "the restrictions above effectively eliminate any meaningful overnight service
13 from the customer perspective." APWU-ST-1 at 4.

14 His conclusion is premised on the unsubstantiated view that customers who send
15 local, single piece First-Class Mail consider overnight service a critical attribute.
16 However, market research conducted by the Postal Service consistently shows what
17 they have told us over the years: reliability, ease of use/convenience, and affordability
18 are the attributes they consider critical. Customers indicate that if they needed a day-
19 specific delivery, they would make sure they would send First-Class Mail a day earlier or
20 they would use an expedited service, such as Express Mail or Priority Mail.

21 This unchanged customer perspective is also shown in the Postal Service's
22 customer satisfaction program. A 1992 Government Accountability Office audit showed

1 that customers focus on factors other than transit time.¹⁵ The Postal Service has been
2 able to improve its aggregate ratings over time by focusing on what it learned from this
3 audit. Predictability and consistency are more important for First-Class Mail customers
4 than speed can ever be, given that other market alternatives have long ago positioned
5 themselves as the high-speed alternatives to First-Class Mail. Hence the segment of
6 customers for whom speed is the critical concern have long since relied on shipping and
7 mailing alternatives other than First Class-Mail.

8 Witness Schiller's conclusion is also based on the incorrect premise that an
9 8 a.m. acceptance time prevents customers from getting overnight service. He is
10 mistaken as to what will be the CETs from a customer perspective, if the proposed
11 MPNR is implemented. The CET for single piece First-Class Mail and Priority Mail will
12 remain at 5 pm. Single piece First-Class Mail will be collected that day, but will not be
13 processed for delivery until the next day. As a result, overnight service will no longer be
14 provided. Presorted First-Class Mail will have an 8 am CET. Such mail entered by the
15 CET, if properly prepared and containerized, will be delivered the next day if it is
16 destined to the overnight service area of the SCF in which it is entered. However,
17 Priority Mail will be collected, processed and transported as it is today. Hence,
18 overnight service will continue to be provided for Priority Mail.

19 Witness Schiller claims to document in his Table 1 that service standard changes
20 will result in slower service than experienced today for First-Class Mail, Periodicals,
21 Package Services and Standard Mail. APWU-ST-1 at 3. I note that Table 1 is based

¹⁵ Tracking Customer Satisfaction in a Competitive Environment. General Accounting Office Report. GAO/GGD-93-4.

1 on an analysis of 3-Digit ZIP-Code pairs. The number of 3-Digit ZIP-Code pairs that
2 would or would not change due the proposed service standard changes do not indicate
3 very much in terms of the effect of proposed changes on customers and the mail they
4 send. The relevant analysis is what percentage of volume is affected, as shown in
5 Table 2, above, because the operating plan to meet service standards is built on volume
6 flows so that mail is delivered timely.

7 **V. PARCEL SELECT IS THE RIGHT PRODUCT AT THE RIGHT TIME**

8 Witness Schiller asserts that by encouraging drop shipping through Parcel
9 Select, the Postal Service effectively reduces the value of its assets, so it should instead
10 focus on providing end-to end service. APWU-RT-2 at 35-37; Tr. 11/3909-11.
11 Notwithstanding witness Schiller's observations about drop shipping, the Postal Service
12 has a longstanding strategy involving provision of the last mile of package delivery to
13 capitalize upon the strength of its delivery network. MPNR will not change this strategy,
14 one way or another. The last mile strategy for packages builds on the Postal Service's
15 extensive delivery network that delivers mail to every business and individual delivery
16 point. It is the right strategy because it builds on a core strength of the Postal Service –
17 its extensive delivery network. It has been successful. As shown in Table 1 above,
18 Parcel Select volume growth has been faster than the GDP and the growth rates for
19 UPS and FedEx ground services. The Postal Service will continue its last mile
20 strategy.

21 **VI. MPNR WILL SUPPORT AFFORDABLE PRICING**

22 Witness Schiller concludes that MPNR creates sufficient risk that a final decision
23 should be deferred. APWU-RT-2 at 38-40. To the contrary, there is a certainty that if

1 MPNR is not implemented, Postal Service costs will continue to increase in accordance
2 with its excess capacity. Such additional costs translate into higher package service
3 prices with price increases putting at risk the affordability of Priority Mail and our other
4 shipping services. Implementation of MPNR thus supports the Postal Service's ability to
5 continue offering Priority Mail and its other shipping services at affordable prices.

6 As is shown above, the impact of MPNR on Priority Mail service and
7 performance will be minimal. Hence, implementation of the plan will affect the volume
8 of Priority Mail or other shipping services, notwithstanding witness Schiller's assertions
9 to the contrary.

10 **VII. Conclusion**

11 MPNR will eliminate the expectation, but not necessarily the realization, of
12 overnight service for significant portions of First-Class Mail, and modify the two-day
13 range to include pairs that are currently overnight while enlarging the three-day delivery
14 range. These revisions allow for a significant consolidation of the Postal Service's
15 processing and transportation networks and consequent cost elimination. The result will
16 be an infrastructure that better matches current and projected mail volumes with
17 necessary service while generating significant cost savings. MPNR will not materially
18 affect the service standards or performance of packages, whether Priority Mail or other
19 shipping services. It would improve prospects for future growth of Priority Mail and
20 support the continued availability of Priority Mail at affordable prices. MPNR is thus
21 entirely consistent with the Postal Service's goals for and ability to continue to meet
22 customer's needs and participate in volume growth in the package market.



Brief Overview Of The Package Shipping Market

Postal Vision 2020 – June 12, 2012

Publishable Conference Presentation By The Colography Group, Inc.

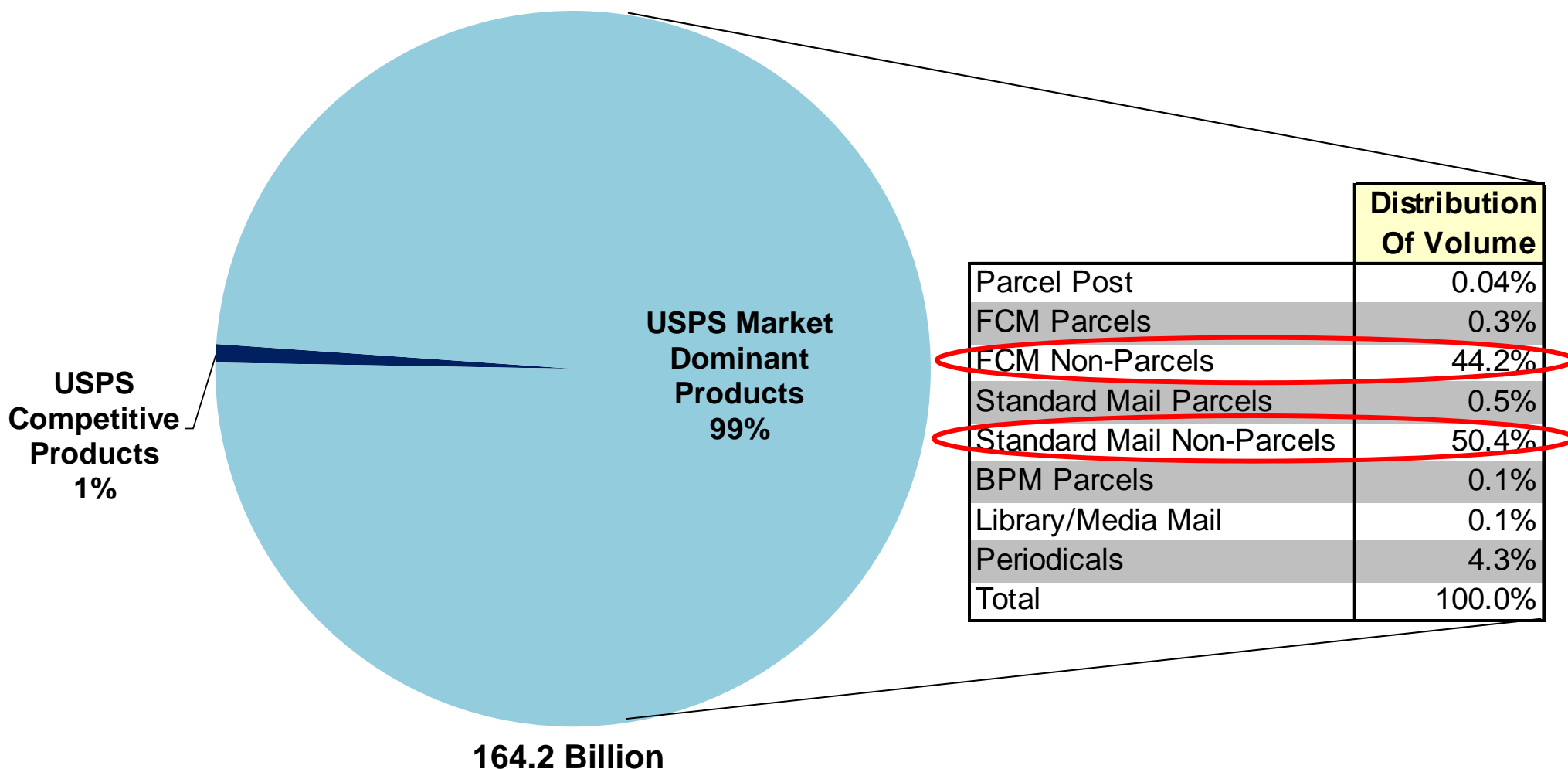
Research • Consulting • Publishing



Who Is The Colography Group, Inc.?

- The Colography Group, founded in 1983, has proven to be a leader in the field of fact-based expedited transportation research and consulting.
- Since its inception, The Colography Group has interviewed more than 500,000 businesses in a statistical representative manner that produces empirical information about the transportation market.
- The methods developed and used to amass shipping data represent all shippers proportionally and is arguably the industry's most robust set of data on the shipping market.
- Our years of experience in sampling the transportation market results, in any given year, statistical confidence levels greater than 90%.

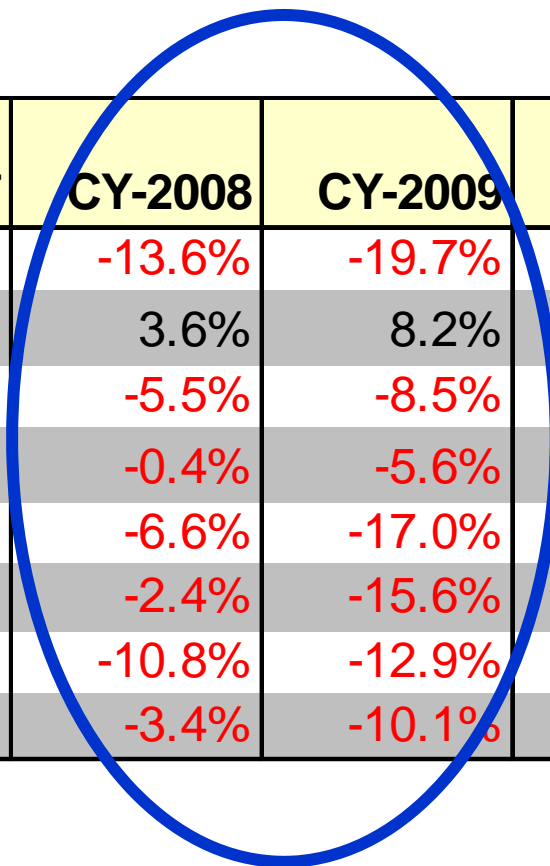
CY-2011 U.S. Postal Service Reported Volume



¹Percentages rounded to the nearest tenth. Select carrier services included.

Source: The U.S. Postal Service public Revenue, Pieces and Weight (RPW) reports published on www.usps.com.

U.S. Postal Service Market Dominant Product Growth Trends



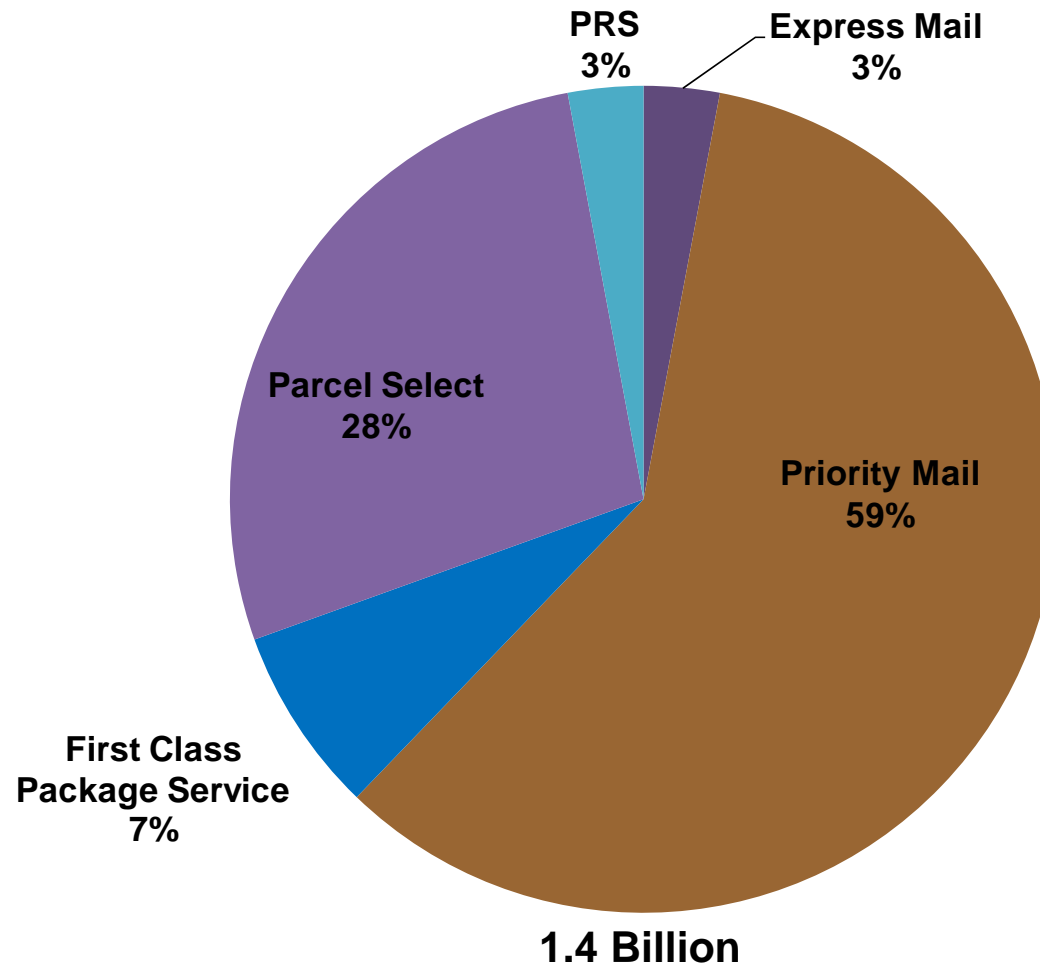
	CY-2007	CY-2008	CY-2009	CY-2010	CY-2011
Parcel Post	-5.7%	-13.6%	-19.7%	-7.4%	10.3%
FCM Parcels ¹	-4.4%	3.6%	8.2%	3.3%	-8.2%
FCM Non-Parcels	-2.4%	-5.5%	-8.5%	-6.4%	-6.0%
Standard Mail Parcels ²	25.9%	-0.4%	-5.6%	4.0%	6.3%
Standard Mail Non-Parcels	-1.2%	-6.6%	-17.0%	6.0%	-2.0%
BPM Parcels	-1.2%	-2.4%	-15.6%	-3.3%	-4.0%
Library/Media Mail	-9.3%	-10.8%	-12.9%	-11.3%	-10.6%
Periodicals	-1.0%	-3.4%	-10.1%	-5.4%	-3.9%

¹ In October 2011, part of FCM Parcels was re-classified as First Class Package Service, which is a USPS competitive product.

² In October 2011, part of Standard Mail Parcels was re-classified as Light Weight Parcel Select, which is a USPS competitive product.

Source: The U.S. Postal Service public Revenue, Pieces and Weight (RPW) reports published on www.usps.com.

CY-2011 Distribution Of U. S. Postal Service Competitive Shipping Products¹



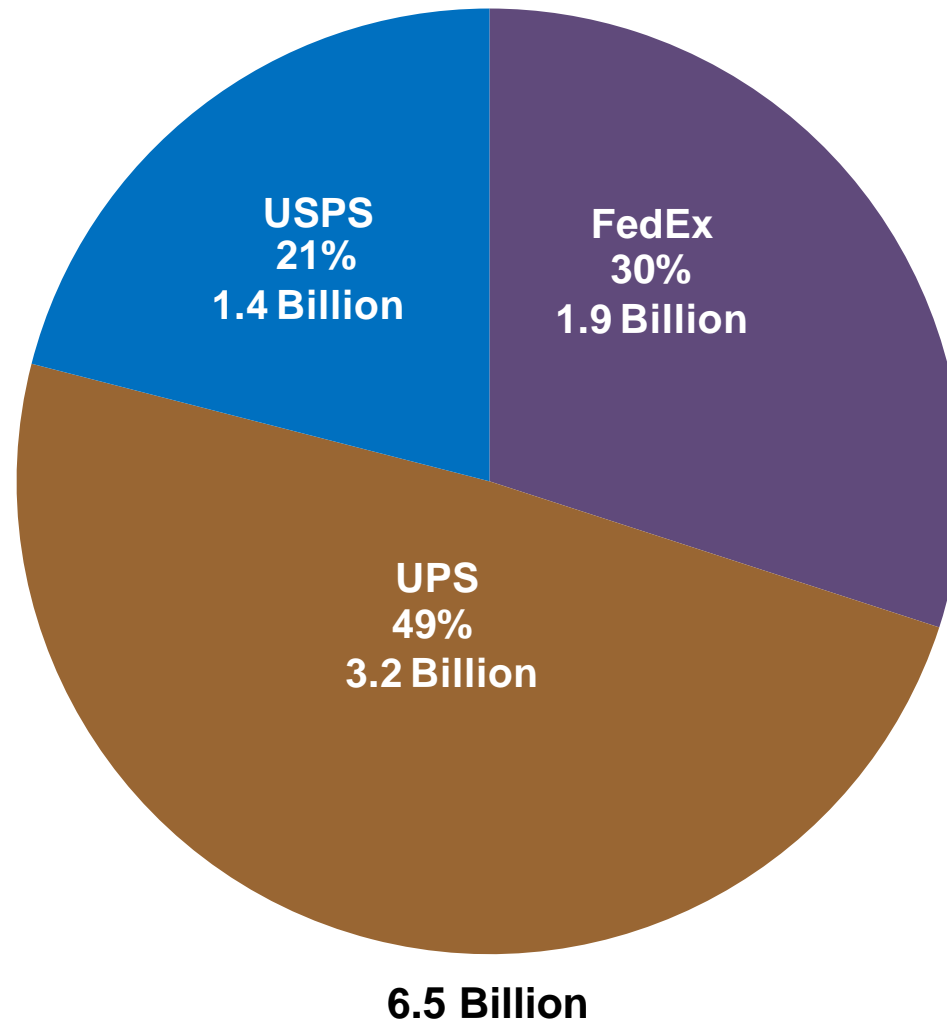
¹Percentages rounded.

Source: The U.S. Postal Service public Revenue, Pieces and Weight (RPW) reports published on www.usps.com.

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CY-2011 Carrier Share Can Vary By How The Market Is Defined ¹



¹Percentages rounded. Select services included and excluded for USPS, FedEx and UPS.

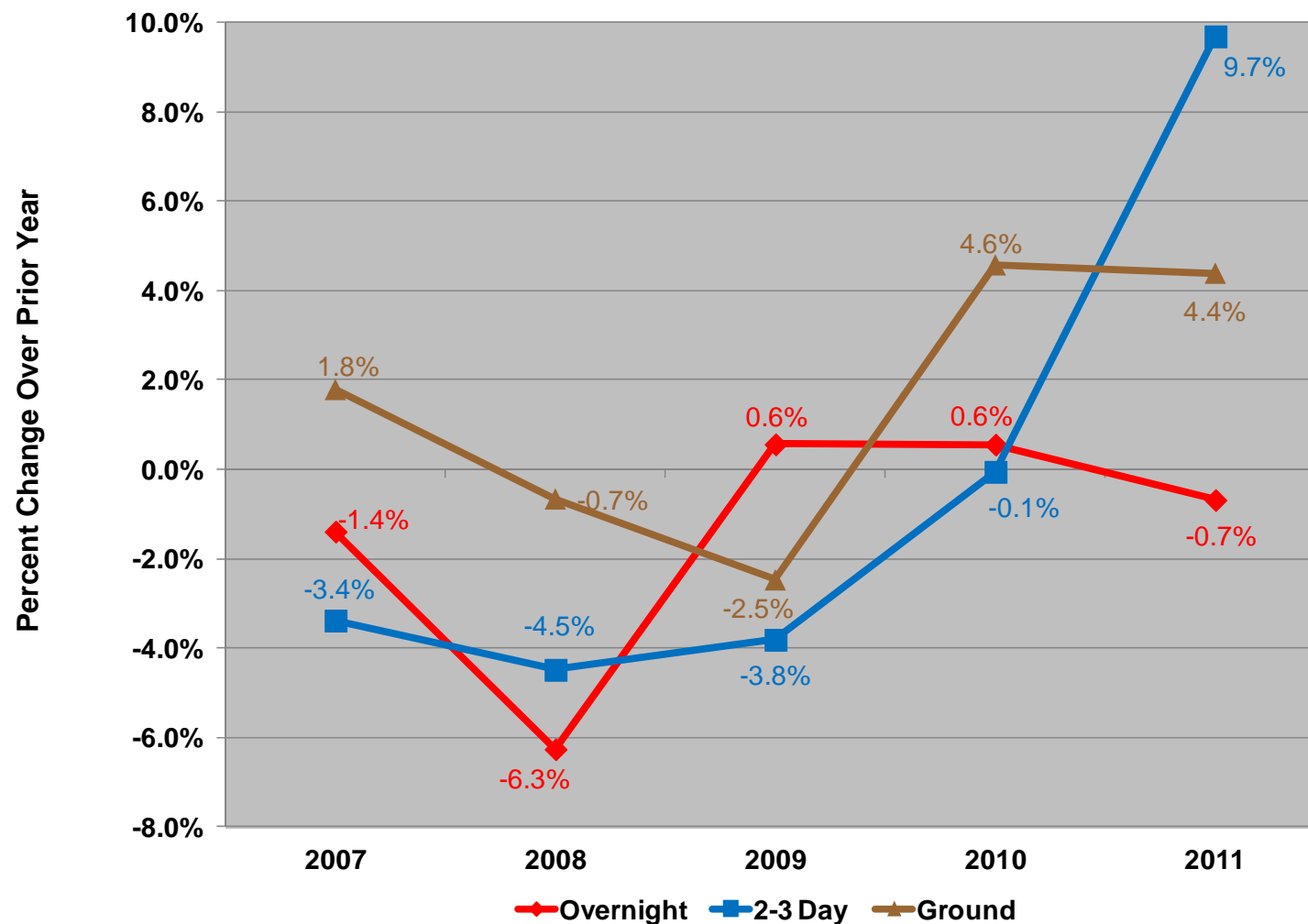
Source: The Colography Group's publishable version of the U.S. Domestic And Export Air Traffic And Yield Analysis By Competitor And Market Segment report.

The U.S. Postal Service public Revenue, Pieces and Weight (RPW) reports published on www.usps.com

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Air And Ground Competitive Shipping Market Growth Trends



Note: Growth rate for 2/3 day in 2011 has inclusion of First Class Package Service in October 2011.

Source: The Colography Group's publishable version of the U.S. Domestic And Export Air Traffic And Yield Analysis By Competitor And Market Segment report.

The U.S. Postal Service public Revenue, Pieces and Weight (RPW) reports published on www.usps.com

Carrier Product Growth Trends In The Competitive Shipping Market

	CY-2007	CY-2008	CY-2009	CY-2010	CY-2011	5 Year Average
Express Mail	-4.1%	-9.3%	-5.7%	-8.2%	-4.1%	-6.3%
Priority Mail	10.9%	-5.2%	-5.7%	-1.4%	3.0%	0.3%
Parcel Select	1.0%	-1.8%	1.4%	21.9%	28.8%	10.2%
PRS	-6.6%	34.4%	75.4%	44.8%	29.0%	35.4%
First Class Package Service	--	--	--	--	Began Oct 2011	--
FedEx/UPS						
Air	-1.0%	-5.1%	0.7%	0.8%	0.2%	-0.9%
Ground	2.0%	-0.3%	-3.0%	3.2%	2.3%	0.8%
GDP	1.9%	-0.3%	-3.5%	3.0%	1.7%	

Source: The Colography Group's publishable version of the U.S. Domestic And Export Air Traffic And Yield Analysis By Competitor And Market Segment report.
The U.S. Postal Service public Revenue, Pieces and Weight (RPW) reports published on www.usps.com



CY-2011 U.S. Domestic Volume Distribution By Carrier And Service Mode

	FedEx	UPS
Overnight Air	27.4%	8.9%
2-3 Day Air	13.3%	7.2%
Ground	59.3%	83.8%
Total	100.0%	100.0%

Source: The Colography Group's publishable version of the U.S. Domestic And Export Air Traffic And Yield Analysis By Competitor And Market Segment report.



A Few Perspectives On The Economic Conditions And Package Growth In The U.S.

- U.S. Economic growth in the near term will continue to be tepid.
- Expectations for the remainder of 2012 and early 2013 are for steady growth in business and consumer spending; but no significant upward trend in growth rates.
- The combination of rising costs for nondurable goods (primarily fuel and food), online sellers' continued promotion of free or lower-cost shipping charges and lower prices for goods will continue to enhance the appeal of online shopping.
- Competitors remain focused on greater growth opportunities in international markets, they also know that maintaining and/or growing in profitable business segments is key to their success in a maturing U.S. market.